

### Credit Crisis, Leveraged Investments, Risk – The Solution?

In mid July, Joseph A Dear, chief investment officer of CalPERS (the Californian Public Employees' Retirement System) gave his [written statement](#) to a US Senate Committee. The topic was regulating Hedge Funds and other Private Investment Pools. As custodian of \$180bn of funds, paying benefits of \$10bn per annum and with 250 investment staff, his view could be considered as both important and influential. Whilst praising the enhanced returns, risk management qualities and diversification provided by these investment vehicles, Mr. Dear highlighted the difficulties associated with massive leveraged positions, counterparty risks and transparency. He advocated –

- Increased regulation to protect investors and consumers and policing of financial institutions
- Avoiding gaps in regulation between investment institutions, intermediaries and products.
- Improving corporate governance and creating a systemic risk regulator with appropriate powers.

Amongst the additional comments there may be some smiles with firstly, the suggestion that mortgage originators should retain some of the risk they initially take and secondly, that executive pay consultants should be independent of management. Given the litigation that CalPERS has just started against the rating agencies, S&P, Moodies and Fitch, independence is something we may hear a lot more about!

### Workplace Personal Pensions

The Department for Work and Pension (DWP) should be thanked for facilitating (and paying for) another useful piece of research, Research [Report](#) No. 591 – “Current practices in the workplace personal pension market; Qualitative research with pension providers and intermediaries”. The report is timely with auto enrolment and personal accounts (PAs) looming in 2012.

It is initially nice to note that the 2001 Stakeholder Pensions (SHPs) are credited with forcing down the pension industry charges on personal pensions to less than a 1% annual management charge (AMC). AMCs varied significantly depending on whether intermediary commission was involved but also via size of case, average contribution, staff turnover etc. NB. Intermediaries provide authorised and highly regulated investment advice.

The range of funds available from most providers is huge. An average of 150 funds were available with employee choice typically being limited to 10. Default funds attracted 60-100% of members with usually equity based managed funds being phased into cash and bond funds as retirement approached.

### The Pensions Advisory Service (TPAS)

Whilst initially flagging up the potential for a “He would say that, wouldn't he!” comment, may I recommend TPAS [Annual Report](#) for easy and informative reading? With over 75,000 helpline calls, 12,500 written enquiries and 750,000 web site hits last year, TPAS can justifiably claim to know what's going on.

- State pensions and voluntary National Insurance contributions prompted many helpline questions.
- Concerns over the stock market resulted in questions from all types of pension arrangement.
- Security of pension saving was understandably a matter of concern post Woolworth, Lehman Bros etc
- Early retirement and cashing in all types of saving is increasingly common. It is perhaps never too early to remind everybody of the big change in April 2010 when the minimum age goes up to 55.

TPAS is free to the public. With over 400 volunteers from the pensions industry (but looking for more) the case studies, literature and web site represent a great source of information, CPD, guidance and reassurance (even if only reassurance that others have the same problems!)

**And finally**; the merger of the Faculty of Actuaries in Scotland and Institute of Actuaries is not now going ahead this year. Much of the press comment included quotes from merger proponent, Ronnie Bowie the Faculty President, and Ronnie Sloan, spokesperson of merger opponents Fidelis. Strangely the two christian names didn't prompt mention of 1970/80's comedy duo the Two Ronnies, Messrs Barker & Corbett. However, for those with good memories, it is at least temporarily “Goodnight from me, and goodnight from him”!

*As always, for further comment, assistance, advisory or trustee services, contact me on 07714 064964 or via [allan@acmca.co.uk](mailto:allan@acmca.co.uk) Feedback on Pension Snippets is always welcome. For further details, the full CV, occasional lecture notes and published articles and previous Snippets - visit the web site at [www.acmca.co.uk](http://www.acmca.co.uk)*